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ASSESSING THE IMPACT: INDIRECT TAXES VS. GST ON THE INDIAN ECONOMY

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ABSTRACT

GST has brought about significant advancements in the Indian taxation system. On a global scale, the adoption of the Goods and Services Tax (GST) indirect tax framework has gained momentum, with over 160 countries having implemented it by April 1, 2015, with Malaysia being the most recent addition. The inception of GST traces back to 2004 when it was conceptualized by the task force responsible for the Fiscal Responsibility and Budget Management Act of 2003 (commonly known as the Kelker Committee). Its primary objective was to replace the complex federal and state indirect tax systems. As per the Kelker Committee's recommendations, the nationwide implementation of GST, encompassing nearly all goods and services consumed within the economy, was envisioned to establish a unified market, broaden the tax base, enhance the revenue productivity of domestic indirect taxes, and optimize resource allocation for improved welfare. The GST model proposed is of a dual nature, akin to the system in Canada, where both the Union and State governments independently levy and collect taxes. GST operates as a consumption-based tax, meaning it assesses only the final consumption of goods and services. It stands as a unified tax applicable to both goods and services, enabling offsetting of taxes across the supply chain. This paper meticulously examines the proposed GST framework in comparison to the existing taxation structure, initially delineating the proposed GST and the current taxation system. Subsequently, it scrutinizes the distinctions between the two frameworks and concludes with a succinct exploration of their effects on employment and various sectors. It is noteworthy that previous studies have been taken into account. The Indian government has designated April 1, 2016, as the date for the rollout of GST.

KEYWORDS: GST, Service tax, VAT, Taxation System.

INTRODUCTION

In India, the government levies and collects both direct and indirect taxes to generate revenue for various public expenditures and services. Direct taxes, as the name implies, are taxes imposed directly on an individual's or entity's income, wealth, or assets. This category of taxes includes income tax, surcharges, and gift taxes, among others. The administration and enforcement of direct taxes in India fall under the purview of the Central Board of Direct Taxes (CBDT). The CBDT is a statutory body established by the Central Board of Revenue Act, 1963, and it operates under the Department of Revenue in the Ministry of Finance. It plays a pivotal role in the formulation of policies and guidelines related to direct taxes, as well as in ensuring compliance with tax laws across the country. Income tax, one of the most significant components of direct taxes, is levied on an individual's or entity's income, including salary, business profits, capital gains, and other sources of earnings. Surcharges are additional levies imposed on taxpayers with higher incomes, and gift taxes are applicable to transactions involving the transfer of assets or wealth through gifts. The revenue generated from direct taxes plays a crucial role in funding various government programs, social welfare initiatives, and public infrastructure development projects. These taxes are progressive in nature, with individuals and entities with higher incomes typically subject to higher tax rates. Overall, the collection of direct taxes by the Indian government through the CBDT is a fundamental component of the country's fiscal policy, contributing significantly to its revenue generation and economic development efforts.

Goods and Services Taxation (gst)

On the 1st of July in 2017, India introduced the Goods and Services Tax (GST), a comprehensive tax system that replaced a multitude of cascading taxes previously imposed by both the central and state governments. This transition followed the approval of the 122nd Amendment Bill to the Indian Constitution, resulting in the enactment of the Constitution (One Hundred and First Amendment) Act of 2017. The GST system in India operates under the guidance of the GST Council, chaired by the Indian Finance Minister. In Canada, individuals are subject to various tax rates for goods and services covered by the Goods and Services Tax (GST). For instance, rough precious and semi-precious stones are taxed at a unique rate of 0.25 percent, while gold carries a tax rate of 3 percent. Additionally, some commodities, including carbonated beverages, luxury automobiles, and tobacco products, are exempt from the GST. Initially, there were plans to replace numerous indirect taxes with a unified tax system, a move that was expected to have a profound impact on India's annual economic output of $2 trillion. It is noteworthy that India's GST rates are notably higher, often two to four times greater than those in other countries like Singapore.

India's Indirect Tax

An intermediary, such as a retail store, assumes the ultimate economic burden of taxes, which could be indirect taxes like sales tax, unit tax, value-added tax (VAT), or goods and services tax (GST), as paid by the end consumer. At this juncture, the intermediary is responsible for tax filing and subsequently remits the resulting funds to the federal government. In this context, an "indirect tax" refers to a tax imposed by the government but not directly paid by the individuals, be they legal entities or natural persons, on whom it is imposed. Unlike direct taxes, which cannot be shifted from one person to another, indirect taxes, according to some critics, can be transferred. Indirect taxes may increase the cost of a product for consumers, affecting the price of goods such as fuel, alcoholic beverages, and cigarettes. For example, the initial excise duty on an automobile is borne by the car manufacturer but is ultimately passed on to the car buyer in the form of a higher purchase price. An indirect tax is one that can be transferred or passed along the supply chain. The classification of taxes as predominantly direct or primarily indirect depends on the extent to which they shift the tax burden. When the demand and supply for taxed goods or services are relatively inelastic, the tax burden tends to be higher. Even income taxes can be considered indirect under this framework. In the United States, the term "indirect tax" carries a distinct meaning; please refer to "direct tax" and "excise tax." Despite the fact that it was originally implemented as an excise tax on July 1, 1862, federal income tax, which gradually expanded from affecting around 8 percent of the population to nearly 90 percent during the 1940s, continues to be considered an excise tax. This transition was primarily due to its utilization as a wartime measure.

OBJECTIVES OF THE STUDY

1. To identify the proposed GST system as well as the current taxation status.
2. To distinguish between the planned GST scheme and current taxation.

LITERATURE REVIEW

In his study, Garg (2014) examined the effects of the Goods and Services Tax (GST) in India. The author provided a concise overview of the historical context of taxes and tax structure in the country, while also emphasising the potential challenges, dangers, and possibilities associated with the implementation of GST in order to enhance the functioning of the free market economy. Prior to highlighting the importance of developing our force-marked economy, Shah (2014) provided a summary of the proposed objectives of the Goods and Services Tax (GST) and conducted an analysis of the potential obstacles, risks, and opportunities associated with its implementation. Bhat (2014) examines the electronic governance of India's Value Added Tax (VAT) system, with a particular focus on the states of Goa and Kerala. India had a complex sales tax regime until approximately 2005. In 2005, some states, most notably Goa and Kerala, opted to substitute the sales tax with the Value Added Tax (VAT). The primary advantage of Value Added Tax (VAT) was the inclusion of Input Tax Credit (ITC) on acquired goods.

Emmanuel (2013) conducted a study in Nigeria to examine the correlation between Value Added Tax (VAT), increments in VAT rates, the progress of the economy, and tax income. In this study, the researcher formulated two null hypotheses, both of which were subsequently accepted towards the conclusion of the study. The author proposes that in light of the significant correlation, it would be advantageous for the government and relevant authorities to proactively engage in public education regarding the advantages of Value Added Tax (VAT).

This approach aims to facilitate the public's acceptance of potential increments in VAT rates.

In the present investigation, Ahmad (2010) examined the endeavours undertaken by the Pakistani government to implement a comprehensive sales tax system. The author provided an analysis of Pakistan's prevailing system of indirect taxation, delved into the historical context of taxation in the country, and examined the suggested modifications put forth by the National Taxation modifications Commission. Subsequently, the author elucidated the obstacles and advantages associated with the proposed reforms. In the year 2011, Benedict, who had the title of Count, made a significant contribution. The examination conducted by the author focuses on the provisions within the Australian Goods and Services Tax (GST) legislation pertaining to financial services. The objective is to assess whether these provisions have been comprehended accurately in relation to the original intent of the legislation, and to identify potential remedies for the issues that have been identified.

The study conducted by Ciobanasu (2012) examines the relationship between different tax categories and their impact on the generation of planned revenues, as well as the overall budgetary performance of Romania. The concept of indirect tax is characterised by its relative ease of administration, lack of direct impact on the taxpayer's financial standing, and its ability to generate income while potentially contributing to inflationary pressures. In contrast, direct taxes are self-contained in nature and pose challenges in terms of administration. Indirect taxes can also serve as a means for the government to influence public consumption in some respects. According to the authors, both taxes play a crucial role in fostering the general growth of the economy. providing consulting services on a global scale. The year 2011. This paper presents a summary by Genpact regarding the outcomes of a study they conducted for a manufacturing client operating under European Value-Added Tax (VAT) regulations. The study reveals that the client achieved cost savings by implementing modifications to their VAT compliance procedures. The implementation of the Goods and Services Tax (GST) in India was initially planned for the year 2010. The postponement of the event can be attributed to various factors, with the primary one being the inability to reach a consensus over pay between the state and federal entities. The author examined the existing indirect tax legislation in India, along with the value-added tax regulations implemented in different states. Additionally, the author analysed the advantages and disadvantages associated with these tax systems, explored the potential consequences of the forthcoming Goods and Services Tax (GST), and evaluated the proposed compliance criteria for the GST. The author additionally included several quantitative illustrations to underscore the cost-effectiveness of the GST. Dear Mr. Collins, I would want to express my gratitude for the time and concern you have given me. The year 2014. The author of this post conducted an investigation and analysis of the contributions made by Irish households towards direct and indirect tax collections. Furthermore, an examination is conducted to assess the effects of these contributions in relation to the recent indirect tax reforms implemented in Ireland. In a study conducted by Fathi (2012), the researcher explored the correlation between the value-added tax (VAT) rate and the occurrence of public VAT evasion through the implementation of various experimental methodologies. It has been shown that there exists no discernible correlation between the two variables, as evidenced by the observation that nations with a high value-added tax (VAT) rate tend to exhibit a notable level of compliance, while those with a low VAT rate tend to experience a significant prevalence of evasion.

In his study, Bikas (2013) examined the correlation between the value-added tax (VAT) rate and the European Union (EU) economy. Additionally, the author investigated the association between the VAT rate and macroeconomic indicators, along with their influence on the VAT rate. The authors endeavoured to ascertain the determinants that impact the collection of Value Added Tax (VAT) in European Union (EU) member states. In Feria's (2009) study, a comparative analysis is conducted between the indirect taxation of financial services in Australia and the European Union, with the aim of determining the relative merits of the Australian system. Could any elements of the Australian system be copied in the European Union if they are deemed superior? In a study conducted by Gelardi (2013), an examination was undertaken to assess the anticipated effects on consumers resulting from the proposed implementation of the National Consumption Tax inside the United States of America. This tax policy is projected to lead to an escalation in consumer expenditures. The suggested tax would possess a federal jurisdiction and would be supplementary to the current state sales taxes. This individual, known as Kar, is a resident of India during the year 2012. The chairman of the Task Force, Mr. V. Kelkar, was chosen by the Ministry of Finance. The primary objective of the Task Force was to assess the potential effects of the proposed Goods and Services Tax (GST) on the Indian economy. The author of the piece conducted an analysis on the diverse facets of the Goods and Services Tax (GST) and its implications on the general populace, businesses, and the overall economy. The author's analysis of secondary data suggests that the introduction of GST in India would have a positive impact on the overall economy. The author has extensively discussed the three distinct types of Goods and Services Tax (GST), specifically Central GST (CGST), State GST (SGST), and Integrated GST (IGST), along with comprehensive coverage of GST exclusions, the GST treatment of imports and exports, and revisions to Input Tax Credit (ITC).

The work titled "Kabera Kabera Kabera Kabera Kabera Kab" was published in 2009. The author of this article has examined the many measures and strategies implemented within the framework of Rwandan tax legislation to address tax-related offences. The author conducted an analysis of the advantages and disadvantages associated with these methods, with the aim of devising strategies for enhancing their efficacy in the regulation of tax evasion. Parkhilli is a specific variety of parkhilli, as identified by Parkhilli (2010). The author examines the implementation of the Goods and Services Tax (GST) in India, delving into its historical context and the proposed collection mechanism, with particular emphasis on its compatibility with India's federal governance structure. The author underscored the prevalence of various indirect taxes in India, such as Value Added Tax (VAT), excise duties, and other similar levies. According to Chowdhury (2011), The present study examines the existing indirect tax system, specifically the Value Added Tax (VAT), and analyses the legal framework pertaining to the planned Goods and Services Tax (GST) in India. Furthermore, this investigation delves into the advantages and obstacles associated with the implementation of the GST. According to the author, the Goods and Services Tax (GST) is intended to encompass both goods and services. The author also examined the proposed implementation of the State Goods and Services Tax (SGST) and Central Goods and Services Tax (CGST) in India. This article by Zhou (2013) provides an analysis of the Malaysian Goods and Services Tax (GST). The authors commence by providing an overview of the present state of the Malaysian economy and establishing connections between this context and the impending implementation of the Goods and Services Tax (GST). Additionally, this study examines the effects of the Goods and Services Tax (GST) on pricing levels, economic development, and revenue collection. According to the paper, it is asserted that the implementation of the Goods and Services Tax (GST) will result in a decrease in prices and an overall increase in the Gross Domestic Product (GDP), aligning with the projected outcomes for India.

DATA ANALYSIS

This research study relies on data gathered and analysed from secondary sources, such as newspapers, books, websites, and academic research.

Tax	Levy by	Levied on	Covered by
Central excise	Central	Manufacturer	Yes
Service tax	Central	Providing Services	Yes
Custom	Central	Import	No
CVD under custom(Countervailing duty)	Central	Additional import duty(Compensating excise)	Yes
SAD under custom(Special additional duty)	Central	Additional import duty(Compensating excise)	Yes
CST	Central	Inter-state sales	Yes
VAT	State	Sales within a state	Yes

Table 1 : Indirect Tax System in India

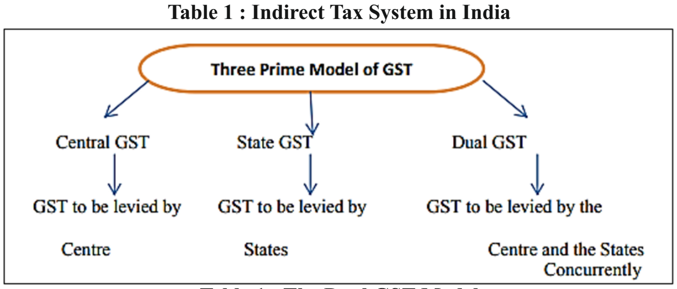

Table 1 : The Dual GST Model

ISSUES	PRE GST REGIME	GST REGIME
Transparent Tax Administration	Presently, tax is levied at two stages in broad manner i.e. 1. When product moves out of factory. 2. At retail outlet.	GST is to be levied only at final destination of consumption and not at various points. This brings more transparency and corruption free tax administration.
Tax rates	There are separate rates. For e.g. Excise 12.36 % and Service Tax 14%.	There will be one CGST rate and a uniform rate of SGST across all states.
Tax burden	Under present scenario, tax burden on tax payer is high.	Under this, tax burden is expected to reduce since all taxes are integrated which make it possible the burden to be split equitably between manufacturing and services
Cost Burden on Consumers	Due to presence of cascading effect, certain taxes become part of cost.	As GST mechanism removes such effect by providing credit, cost burden is reduced.
Concurrent Power	At present, there is no such power to both Centre and State on same subject tax matter	Both Centre and State are vested with the power to make law on GST by virtue of proposed Article 246A of the Constitution

Compliance	Tax compliance is complex because of multiplicity of laws and their provisions to be followed.	Tax compliance would be easier as only one law subsuming other taxes need to be followed
Cascading effect	This Problem arises because credit of CST and many other taxes not allowed.	This situation will not arise as CST concept is being eliminated with introduction of IGST.
Broad scheme	There are separate laws for separate levy. For e.g. Central Excise Act, 1944, respective State VAT laws.	There will be only one such law because GST shall subsume various taxes as specified above.

Table 2 : Issues in GST

CONCLUSION

The Government is currently undertaking measures to mitigate the cascading impact of indirect taxes, which offer benefits to both the Government and sellers. Manufacturers, distributors, and retailers will find it convenient to recover input taxes through the utilisation of tax credits within a simplified indirect tax framework. The adoption of the Goods and Services Tax (GST) is anticipated to result in a 2% augmentation in economic output. The implementation of the Goods and Services Tax (GST) is expected to expand the tax base and enhance its level of transparency. The Goods and Services Tax (GST) would result in the elimination of taxes imposed on products and services at both the federal and state levels. This measure will provide a more equitable environment for the manufacturing sector, enabling it to engage in fair competition. The reduction in prices of goods and services will lead to an increase in the tax-to-GDP ratio. The regulations and framework governing commercial operations in India are expected to undergo significant streamlining. A decrease in the tax rate on manufactured goods, specifically ranging from 24-25% to 20-21%, is anticipated. A tax hike of 20% will be implemented on retail transactions, representing a notable rise from the existing rate of 12.5 percent. The proposed adjustment entails an increase in the counter vailing duty on imported goods, specifically from 16 percent to 20 percent. Registration will be mandated by each individual state for both manufacturers and service providers.

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